How to Select and Implement Mortgage Banking Technology

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By
Dana Keeney

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Executive Summary

How to Select and Implement Technology to Support Mortgage Banking is one of the series of five seminars making up the Advanced Training Program in Real Estate Finance. The program has been developed and presented by ICMA, in conjunction with the Kazakhstan International Institute of Banking (KIIB), a USAID-sponsored training institute located in Almaty, Kazakhstan.

This is a report on the seminar held on September 25-29, 1995. Thirteen people consistently attended all sessions. The attendees were bankers from Kazakhstan and Kyrgyzstan, and were primarily mid-level managers and economists.

The objective of the course was to provide a conceptual framework for defining business needs, evaluating the technology alternatives, developing an implementation plan and obtaining management approval and funding to implement new technology. The course consisted of classroom lecture, information gathering meetings with local representatives from Arna-Sprint and IBM, and a case study with group presentations. Discussions included the infrastructural differences and relative advantages/disadvantages between the US mortgage market and Kazakhstan; potential technology-based business opportunities to support a mortgage market; and the demonstration of software currently being used in the US mortgage industry, including Fannie Mae's world wide web pages.

The attendees were attentive and actively participated in the class activities and exercises. Of particular interest was the interaction between the two participants from The State Bank of Housing Construction (Zhilstroi Bank) and the other class participants, who generally had diametrically opposing views.

While the course was presented as a conceptual framework, several attendees indicated that the subject matter was still too technical in nature, perhaps a reflection of both the relatively early stage of development of a mortgage industry in Kazakhstan and the lack of experience and/or training regarding technology in general.

In addition to the training session, I also met with Maiko Sagindykova, Chairperson of the Board of Zhilstroi Bank for a discussion of Zhilstroi's role in the emerging mortgage industry.

The report concludes with recommendations for follow-on activities that the class attendees indicated would have value as they continue the development of a mortgage industry.

I. BACKGROUND AND OBJECTIVES

How to Select and Implement Technology to Support Mortgage Banking was designed to a provide conceptual framework for selecting and implementing technology to support a mortgage banking business. The course built upon and incorporated ideas and concepts presented in the earlier courses in the series, especially Residential Mortgage Lending, to show how technology could be applied to support and streamline a mortgage lending operation.

The course objective was to provide attendees with practical information and techniques, based on my own experience, that would assist them in selecting, justifying and implementing technology in support of their mortgage banking business objectives.

II. APPROACH

The course included classroom lectures, visits with local representatives from Arna-Sprint and IBM, and a case study with group presentations.

Lectures included the impact of technology on the US mortgage industry; current mortgage banking technology trends; infrastructural advantages/disadvantages between the US mortgage industry and Kazakhstan; potential technology-based business opportunities in Kazakhstan; demonstrations of current US mortgage industry technology; and a conceptual framework for selecting and implementing mortgage banking technology consisting of four steps: defining business requirements; evaluating the alternatives; developing an implementation plan and obtaining management approval and funding to implement new technology.

The purpose of the visits with Arna-Sprint and IBM were twofold: to obtain information regarding the types of mortgage-related products, services and support currently available in Kazakhstan; and to demonstrate the use of vendors to obtain information without making a commitment. Presentations were made by Vladimir Breusov, Director of Sales for Arna-Sprint Data Communications and by Vladimir Shestopalov, Regional Director of IBM East Europe/Asia Ltd. The visits also reinforced class lectures regarding the importance of understanding one's business requirements before talking with vendors, and the importance of making well-rehearsed and compelling management presentations.

For the case study the class was divided into three groups, each with the assignment of defining the business requirements, evaluating the alternatives, developing an implementation plan and making a presentation to the board of directors of an imaginary bank for approval and funding of their solution. While the attendees were initially unsure as to how to proceed, perhaps due to a lack of experience with the case method, after some coaching they became actively involved in the case study and worked together in their teams to prepare for the group presentation.

III. IMPRESSIONS

The attendees were uniformly attentive during lectures, frequently asking for more detailed explanations and offering additional insight into their current initiatives to develop a mortgage market in Kazakhstan.

One of the most interesting interactions throughout the course was between two participants from Zhilstroi and the other class members. In nearly every discussion, the Zhilstroi representatives views were diametrically opposed to the rest of the class. For example, the Zhilstroi representatives saw Zhilstroi taking a leadership role, something of a combination of HUD, Fannie Mae and the MBA, in developing guidelines, mortgage programs, and supporting technology for use by the other banks. This view was largely discounted and even ridiculed by other members of the class who saw Zhilstroi as a slow, inflexible tool of the government that was unwilling to even listen to the ideas and needs of other banking institutions. There was a definite under-current that while Zhilstroi was politically positioned to have some sort of role in the emerging mortgage industry, that other more aggressive institutions, such as KazCommerceBank would become the de facto leaders of the industry.

This view was particularly interesting because Zhilstroi was the only institution actively doing residential mortgage lending, albeit a government sponsored, low/fixed interest rate program. At the prompting of the local ICMA office, I asked the Zhilstroi representatives to describe their mortgage lending process and program to the class. The next day they made a presentation to the class describing a program that included: requiring prospective borrowers to open a interest-bearing mortgage savings account to accumulate 30% of the projected purchase price before making the loan; the registration of collateral with a central agent to prevent the same collateral being pledged for other loans; offering a 5% rate for a fixed period of 5 years; no ceiling on the mortgage amount.

Rather than letting Zhilstroi complete the presentation and then ask questions, the class immediately attacked and debated each point as it was being made, with Zhilstroi quickly joining the fray to defend their interpretation of the current laws, the forms they were using, and the rationale for the program parameters.

After several minutes of these attacks and counter-attacks, I was obliged to ask the class to hold their questions until Zhilstroi had completed their presentation so that we could understand the complete process and program parameters. The class immediately complied, Zhilstroi completed their presentation, followed by a more orderly Q&A session.

The attendees approach to the case study was also interesting. I structured the case such that each group was required to interview me to gain important information for completing their assignment. After waiting for at least half an hour for someone to interview me, I asked the interpreter to instruct the class to re-read the portion of the case directing them to conduct interviews. After another 10 minutes, I asked the interpreter to inform the class

that the person they needed to interview was available but would be leaving in 30 minutes. Finally, one of the groups approached me and began their interview. The other two groups quickly followed in succession.

The case presentations were the culmination of the course, and two of the three were well done. One group in particular (led by Chinara) did an excellent job of incorporating everything that had been presented in the course and the case study into a logical, comprehensive and compelling presentation for the approval of the groups recommended solution, although it appeared that she had largely done the work on her own with relatively little support from the other group members.

IV. ZHILSTROI BANK

The following week I had an opportunity to meet with Maiko Sagindykova, Chairperson of Zhilstroi Bank. While I had heard nothing but disparaging remarks regarding Maiko from my students, I found her to be both knowledgeable and realistic regarding the challenges that had to be overcome to create a mortgage industry in Kazakhstan. She too saw Zhilstroi as having a leadership role in creating standards, mortgage programs and supporting technology for the emerging mortgage industry. She shared more detail regarding their pilot programs, but was pessimistic regarding their ability to attract foreign capital to the Kazakh housing industry. She was particularly interested in exploring opportunities for further interaction with Fannie Mae to learn how to structure world-class mortgage-backed securities. She was especially interested in learning if there was any potential that Fannie Mae would invest in the resulting securities. I replied that I was uncertain as to Fannie Mae's legal ability to make such an investment, but would be happy to raise the idea upon my return. (NOTE: I have subsequently learned that this type of investment is not supported by Fannie Mae's charter and is therefore not an option.)

I then visited the Zhilstroi data processing department for a demonstration of a PC-based servicing system they had developed. The system was developed in FoxPro and was Novell-LAN compatible. It was currently in use in several branches and was soon going to made available to other branches. Once a loan was approved, all payments were entered into the system at the respective branch. Once a month, data from the branch offices was sent to the main office via diskette and consolidated for management reporting. During the ensuing demonstration I learned that there were only 12 loans in the program and that delinquency was tracked on a quarterly rather than monthly basis to give borrowers a cushion if they had a bad month. The system had the ability to support multiple loan programs and an unlimited number of loans, based on disk space and processor speed. At the conclusion of the demonstration I complimented the developers and thanked them for a very informative demonstration.

V. POTENTIAL FOLLOW-ON ACTIVITIES

One major concept for a follow-on activity emerged during conversations with the class participants. Several of the class participants had anticipated that the course would focus on technology currently available within Kazakhstan, with demonstrations and an objective comparative analysis. This applied to hardware, communications networks and especially software. Only 2 of the class participants had previously interacted with a technology vendor prior to our meeting with Arna-Sprint and IBM and they also found this to be both interesting and informative. The class identified two major impediments to gathering this information: a lack of knowledge regarding what vendors/services were available in the market; the amount of time and effort required to schedule meetings with multiple vendors.

Based on these conversations I proposed a banking/mortgage banking industry trade-show consisting of presentations from relevant government agencies; panels to share the experiences of banks in implementing a mortgage banking business; panels to share the experiences of the early technology adopters; technology vendor presentations; and an exhibit hall with on-site demonstrations of all relevant technology. I coined the name "KazTech '96" for the show.

Our discussion included the potential for the tradeshow to generate revenues through exhibitor fees, attendee fees, and potential sponsorships.

The class feedback was positive, indicating that such a tradeshow would permit them to learn about the experiences of others and the entire technology market in a 2-3 day period, enabling them to learn from the experiences of others, improve their own practices and be up-to-date with the latest technology.

While I am aware that related tradeshows have been conducted in Almaty, I believe that there is both a need and a market for this type of event and recommend further investigation/validation of the concept, the program and the economic viability.